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CHAPTER 9

PROGRAM AUDITS AND PROGRAM CLOSEOUT

OVERVIEW

This chapter provides guidance on federal and state **audit requirements (Part I)** and **program closeout procedures (Part II)** for local governmental entities and CHDO Grantees.

Since federal audit requirements are determined on a case-by-case basis, Grantees should review Part I of this chapter carefully and contact their HOME Program Officer with any questions or clarifications.

Part II of this chapter describes the steps required to submit program closeout reports. Program closeout should not be confused with project completion discussed in **Chapter 3, Financial Management**. *Program closeout* is the process during which MDOC reviews and approves all submitted *Project Completion Reports*; reviews all applicable administrative actions to be taken; and determines that all work required of the Grantee has been completed in accordance with the terms and conditions of the HOME contract.

PART I: PROGRAM AUDITS

OVERVIEW

This section provides an overview of federal and state audit requirements. Grantees are encouraged to use this section to determine when a Single Audit (explained below in Section I) is required to meet federal regulations. If a federal Single Audit is required or if state law requires a Government Auditing Standards audit, Grantees must reference the applicable Federal and State laws, regulations and auditing standards listed in **Exhibit 9-A, Applicable Audit Requirements**.

If a federal Single Audit is not required, the HOME Program may arrange a limited-scope” audit as part of the monitoring process. A limited scope audit, if required, will be arranged and paid for by the MDOC HOME program.

I. AUDIT REQUIREMENTS

Any Grantee that **expends** \$500,000 or more in its fiscal year in all Federal awards shall have a single audit conducted for that year in accordance with *OMB Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations*. A single audit

is defined as an audit that includes an evaluation of both the organization's financial statements and its compliance with federal awards.

A. FEDERAL

<u>Federal Audit Requirements</u> <i>Expenditure of All Federal Awards Audit Requirement</i>	
Less than \$500,000 in fiscal year	Exempt from federal audit requirements, but records must be available for review or audit by appropriate state and federal officials
\$500,000 or more in fiscal year	Single Audit required

According to A-133, an award is expended when activity related to the award occurs. Expenditures include normal allowable expenditures as well as the receipt of property and the receipt or use of program income/CHDO Proceeds.

Audits of federal financial assistance must be made annually, unless there is a local statutory requirement for less frequent audits. Local governments in Montana, as stated in the Montana Single Audit Act, may have biennial audits that cover the prior two years.

The single audit must be completed and all necessary reports must be submitted to the appropriate agencies within **nine months** after the end of the audit period. Federal regulations require the Grantee to submit a Reporting Package to the HOME Program within the above time frame. A Reporting Package shall include:

- 1) Financial statements and schedule of expenditures of Federal awards;
- 2) Summary Schedule of prior audit findings;
- 3) Auditor's report; and
- 4) Corrective action plan (if applicable).

B. STATE (Local Governments Only)

Local governments receiving HOME funds must comply with Montana audit requirements. According to Section 2-7-503(3)(a), MCA, the governing body or managing or executive officer of each local government entity receiving revenue or financial assistance in excess of \$200,000 shall cause an organization-wide audit to be made at least every two years. The audit must cover the entity's preceding two fiscal years. The audit must commence within nine months from the close of the last fiscal year of the audit period.

II. AUDIT TRACKING

Due to the variety of audit situations, audit requirements are determined on a case-by-case basis. To determine whether a federal single audit will be required, the Grantee prepares a *Schedule of all Federal Financial Assistance* (**Exhibit 9-B**) at year-end.

Preparation of the *Audit Tracking System* (**Exhibit 9-C**) also provides a systematic way to monitor the audit requirements related to HOME projects.

III. AUDIT COSTS

The cost of audits required and made in accordance with the provisions of OMB Circular A-133 are allowable charges to federal assistance programs. The charges may be considered a direct cost or an allocated indirect cost, determined in accordance with the provision of *OMB Circular A-87, Cost Principles for State and Local Governments*.

Generally, the percentage of audit costs charged to the HOME Program should equal the percentage of HOME funds expended in relation to total funds expended by the Grantee during the fiscal year. For example, if total federal funds expended equal \$500,000 of which \$250,000 consisted of HOME funds, the Grantee could charge 50 percent of the Single Audit costs to the HOME program. Many Grantees choose to pay for the audit costs from other sources. In doing so, Grantees are able to close out projects in a timelier manner. Grantees choosing to pay for an audit from project soft costs must distribute a proportionate share to each activity under the project.

HOME Grantees expending less than \$500,000 per year of combined federal funds may not charge audit costs to the HOME Program. However, the HOME Program may require a limited-scope audit to monitor a HOME Grantee. In these cases, the limited-scope audit will be paid for and arranged by the HOME Program.

IV. GRANTEE RESPONSIBILITIES

HOME Grantees must prepare a Schedule of Federal Financial Assistance (**Exhibit 9-B**) for each year HOME funds are spent. If an audit is required under the federal *Single Audit Act of 1984 (P.L. 98-502)* as amended by the Single Audit Act of 1996 and the *OMB Circular A-133*, Grantees shall comply with the following requirements of that circular:

- ✓ Auditee Responsibilities
- ✓ Auditor Selection
- ✓ Financial Statements
- ✓ Audit Findings Follow up
- ✓ Report Submission

Please note, these requirements include provisions to extend opportunities to small business and minority-owned firms.

Local government Grantees must consider both the audit provisions of Title 2, Chapter 7, Part 5, MCA and Circular A-133 requirements.

V. AUDITOR RESPONSIBILITIES

Audits required under the federal *Single Audit Act of 1984 (P.L. 98-502)* as amended by the Single Audit Act of 1996 and *OMB Circular A-133* shall comply with the scope, reporting, findings, working papers and major program determination requirements of that circular.

For local government entities, all audits performed under section 2-7-503, MCA, must be conducted in accordance with Government Auditing Standards, issued by the comptroller general of the United States (see ARM 8.94.4111(3)), that are applicable to financial audits. Those standards incorporate generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants.

VI. HOME PROGRAM RESPONSIBILITIES

The HOME Program is responsible for the following activities:

- ✓ Providing a description of the federal award, including the CFDA title, number, award name/number and award year. **The Home Investment Partnership Program's (HOME) CFDA number is 14.239.**
- ✓ Advising Grantees of Federal requirements.
- ✓ Monitoring and compliance review of the Grantee.
- ✓ Ensuring that the Single Audit Act requirements are met.
- ✓ Reviewing audit findings and following up on any necessary corrective actions in a timely manner.
- ✓ Requiring each Grantee to allow access to records by the appropriate people.

VII. ILLEGAL ACTS OR IRREGULARITIES

If an auditor becomes aware of illegal acts or other irregularities, prompt notice shall be given to the appropriate Grantee officials. For local government Grantees, this notification also should include the local county, city or town attorney. The Grantee, in turn, shall promptly notify the HOME Program of the illegal acts or irregularities and of proposed and actual actions, if any. Illegal acts and irregularities include such matters as conflicts of interest, falsification of records or reports, and misappropriations of funds or other assets.

VIII. AUDIT FINDINGS FOLLOW UP

The Grantee is responsible for follow-up and corrective action on all Federal Single Audit findings. As part of this responsibility, the Grantee shall prepare a summary schedule of prior audit findings and a corrective action plan for the current year's audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards and in the prior audit's summary schedule of prior audit findings.

The Grantee also shall prepare a corrective action plan to address each Federal Single Audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned and the anticipated completion date.

MDOC must issue a management decision on audit findings within six months after receipt of the Grantee's audit report and ensure the Grantee takes appropriate and timely corrective action.

Note for local government Grantees: Per MCA 2-7-515, local governments, within 30 days of receipt of an audit report required by the State of Montana, shall notify the Montana Department of Administration (MDOA) Local Government Services Bureau Audit Review Section (phone 406-841-2907) as to what action they plan to take on any deficiencies or recommendations contained within the report. The HOME program will cease all payment requests if a grantee fails to respond and correct deficiencies noted in an audit report.

PART II: PROGRAM CLOSEOUT

As stated in the **Chapter Overview**, program closeout is different from project completion. ***Project completion*** means that:

- ✓ All necessary title transfer requirements and construction work have been performed.
- ✓ The project complies with HOME regulations (including property standards).
- ✓ The final draw down has been disbursed for the project.
- ✓ The project completion information has been submitted and approved by your HOME Program Officer and HUD.

For tenant-based rental assistance (TBRA), project completion means the final draw down has been disbursed for the project. There are no project completion reports to be submitted for TBRA programs. This is not to be confused with the *Certification of Completion and Status of Funds* report that is required for all programs. See **Chapter 3** for more detail regarding project completion.

Program closeout is the process during which MDOC reviews and approves all submitted Project Completion Reports, determines all match requirements have been met, confirms that all monitoring and audit findings have been resolved, reviews all applicable administrative actions to be taken, and determines that all work required of the Grantee has been completed in accordance with the terms and conditions of the HOME contract. Grantees must submit **Exhibit 9-D** to initiate the program closeout procedure.

Keeping accurate and up-to-date records and files helps the Grantee comply with the closeout requirements easily. All information needed to complete **Exhibit 9-D** should be in the Grantee's files and little, if any, additional information gathering should be necessary.

I. PROGRAM CLOSEOUT PROCESS

Program Closeout involves completing the following steps:

Step 1 -- NOTIFY HOME PROGRAM OFFICER:

When a Grantee is ready to proceed with Program Closeout, it should contact its HOME Program Officer to discuss closeout procedures.

Step 2 -- CONDUCT FINAL MONITORING:

MDOC may conduct a final monitoring visit prior to program closeout. This visit may be waived if the program has been previously monitored and found to be in substantial compliance. The purpose of the final monitoring visit is to ensure that any specific program or administrative issues identified through earlier monitoring visits have been satisfactorily resolved.

Step 3 -- FINALIZE PROGRAM INCOME PLAN OR CHDO PROCEEDS PLAN

Grantees wishing to retain Program Income or CHDO Proceeds after closeout must have a current Program Income or CHDO Proceeds Plan. The Plan should have been submitted as part of the Grantee's Management Plan. As part of the closeout process, Grantees should review the original Plan and update it as needed. If the plan is updated or changed, a revised copy of the Plan must be submitted to the HOME Program Officer for approval. Program Income and CHDO Proceeds requirements are discussed further in this chapter under Section II - Program Income and CHDO Proceeds.

Step 4 -- PREPARE CERTIFICATION OF COMPLETION AND STATUS OF FUNDS REPORT (EXHIBIT 9-D):

The Grantee must complete **Exhibit 9-D** *Certification of Completion and Status of Funds Report*. The grantee must include either the *Conditional Closeout Certification* or *Final Closeout Certification*. The HOME Program cannot give final closeout approval until the final audit report, including review of the HOME funds (if required), has been completed by the grantee's auditor.

The following criteria must be met at the time a Grantee's project is closed out:

- ✓ All funds must have been drawn down and expended on eligible costs. Funds not drawn down and expended must be returned to the HOME program.
- ✓ Match requirements must have been met by the Grantee.
- ✓ All Project Completion Reports and supporting documentation must have been submitted.
- ✓ Applicable audit reports must have been submitted by the Grantee to MDOC.

If the audit does not cover the entire final HOME funds expended, the Conditional Closeout may be submitted by the Grantee, with the date of the final audit indicated on the Conditional Closeout Certificate.

After all the HOME funds are audited, the Grantee can request final closeout approval by submitting a Final Closeout Certificate.

MDOC retains the right to recover funds based on findings in the final audit. If the audit computation of the HOME grant balance indicates that draws exceeded actual program expenditures, action may be taken which requires the Grantee to reimburse the HOME Program for the excess amount. For unsettled third party claims against HOME funds, the Grantee must resolve the claims and submit a revised *Certification of Completion*.

II. PROGRAM INCOME AND CHDO PROCEEDS

A. Program Income

Program Income is the repayment, interest and return on any investment of HOME funds. Most commonly, this includes principal and interest payments on loans made by a grantee to the participants in its program. Such funds are often recouped by the grantee when HOME-assisted housing (homebuyer assistance or homeowner rehabilitation) ceases to be the principal residence of the assisted homebuyer for the applicable period of affordability. Additionally, the following apply:

- Funds generated from a project funded by program income are program income.
- When reinvesting program income, all HOME requirements apply including environmental review, labor and procurement standards, and targeting requirements. Specifically, income targeting rules must be met: for TBRA and rental units, 90% of the participants must have incomes below 60% of AMI; for homeownership, 100% of participants must have incomes below 80% of AMI.
- An Environmental Review Record is valid for 5 years. Reinvestment of program income after five years from the date of initial release of grant funds requires a revised environmental review and NOI/RROF, if applicable to the project type.
- Rental net income from property owned by an entity other than the grantee does not constitute program income. The rental income is simply operating income for the project in that case.
- Rental net income from property owned by the grantee is considered program income, and must be reported to the HOME Program for the life of the project. (Note: If the grantee is a CHDO, rental net income is considered operating income for the project, not program income or CHDO proceeds. See **Section B** for further information.)

General Notes:

- Program income must be used within a grantee's jurisdiction.
- Program income cannot be used as match.
- A written agreement must exist between the grantee and MDOC that specifies:
 - ✓ how program income will be spent
 - ✓ when program income will be spent
 - ✓ what records the grantee will maintain
 - ✓ what reports the grantee will submit to MDOC
- The terms of the written agreement regarding program income apply so long as the grantee continues to receive and disburse program income, regardless of the affordability period imposed by the grantee.

Program Income Reporting Requirements

Grantees must identify the source and application of the HOME funds by the grant year and contract number. The grantee must identify the use of the funds through a set up report. The set up report will provide to MDOC the amount of funds disbursed and the name and address of the recipient.

CHDO Grantees must differentiate between program income and CHDO proceeds. This is necessary because the range of potential uses is wider for CHDO proceeds than for program income.

Grantees must know program income balances on at least a monthly basis.

Grantees must use program income on hand before requesting more funds from MDOC. MDOC reserves the right to demand the return of program income to MDOC, if the grantee does not use the funds in a timely manner and/or does not use the funds for HOME-eligible activities.

Grantees cannot accumulate substantial amounts of program income. If grantees have an open grant, program income must be reported with each draw request.

Grantees are required to submit a quarterly Program Income Report to the HOME Program that includes previous balance, receipts, and disbursement of program income. **Exhibit 9-E**, *HOME Program Income Quarterly Reporting Form*, must be used by the grantee to report program income activity. **Exhibit 9-F** provides a handful of scenarios which would generate program income.

B. CHDO Proceeds

CHDO Proceeds result from a CHDO's investment of HOME CHDO set aside funds.

- CHDO Proceeds differ slightly from program income.
- CHDO Proceeds can only be generated from the funds set aside specifically for CHDO activities. CHDO activities include ownership, sponsorship and development of affordable housing. Tenant based rental assistance (TBRA), homebuyer assistance and homeowner rehabilitation programs are not CHDO activities and therefore generate program income rather than CHDO proceeds.
- Rental income generated by a CHDO-owned project does not constitute CHDO Proceeds. The rental income is simply operating income for the project.
- After CHDO Proceeds are used once, there are no further HOME requirements, i.e. funds generated from CHDO proceeds are not CHDO proceeds or program income.
- CHDO proceeds must be used for HOME-eligible or other affordable housing activities, which will benefit low-income persons. This may include emergency repairs, project operating costs, reserves, refinancing, operating expenses, or homebuyer counseling.

General Notes:

- CHDO proceeds must be used within a grantee's jurisdiction.

- CHDO proceeds cannot be used as match. (However, after CHDO proceeds are used once on a HOME eligible activity, proceeds generated the second time have lost all federal ties and can be used as match.)
- A written agreement must exist between the CHDO and MDOC that specifies:
 - ✓ how the funds will be spent
 - ✓ when the funds will be spent
 - ✓ what records the CHDO will maintain
 - ✓ what reports the CHDO will submit to MDOC.
- The terms of the written agreement regarding CHDO proceeds apply so long as the grantee continues to receive and disburse CHDO proceeds, regardless of the affordability period imposed by the CHDO.

CHDO Proceeds Reporting Requirements

Grantees must identify the source and application of the CHDO proceeds. The grantee must identify the source of the funds by the grant year and contract number. The grantee will need to obtain HOME Program staff approval for CHDO Proceeds expenditures. The grantee will also need to coordinate with HOME Program staff to document the use of the funds. The documentation must include the amount of funds disbursed and the details of the disbursement.

Grantees must submit separate reports for program income and CHDO proceeds. This is necessary because the range of potential uses is wider for CHDO proceeds than for program income.

Grantees must know CHDO proceeds balances on at least a monthly basis.

Grantees must use CHDO proceeds on hand before requesting more funds from MDOC. MDOC reserves the right to demand the return of CHDO proceeds to MDOC, if the grantee does not use the funds in a timely manner and/or does not use the funds for eligible activities.

Grantees cannot accumulate substantial amounts of CHDO proceeds. If Grantees have an open grant, CHDO proceeds must be reported with each draw request.

Grantees are required to submit a quarterly CHDO Proceeds Report to the HOME Program that includes previous balance, receipts, and disbursement of CHDO Proceeds. **Exhibit 9-G**, *HOME CHDO Proceeds Quarterly Reporting Form*, must be used by the grantee to report CHDO Proceeds activity. **Exhibit 9-H** provides a handful of scenarios which would generate CHDO Proceeds.

III. LONG TERM AFFORDABILITY

A program cannot be completely closed out until all the requirements for affordability have been fulfilled. Many of the projects within the HOME program must remain affordable for five, ten or even twenty years after the money has been drawn down and the Project Completion Report has been submitted.

Period of affordability refers to the length of time HOME assisted units must remain affordable. Deed restrictions or covenants running with the land or other approved mechanisms will ensure the period of affordability, depending on the amount of HOME dollars invested per unit in the project. After the required affordability period, the property may be sold without HOME restrictions.

The monitoring requirements for long-term affordability are discussed in **Chapter 10, PROGRAM MONITORING**. The HOME Program will notify a Grantee when the period of affordability for a project is about to expire. Once the period of affordability has expired, the Grantee's obligations to the HOME Program regarding regular, on-site visits and annual recertification of tenants' income no longer apply. The project then will be managed in accordance with the policies established by the Grantee. The Grantee will record the release of any liens, deed restrictions, or covenants running with the land used to enforce the affordability criteria. Files required throughout the affordability period can be closed out after three years following termination of the period of affordability.

CHAPTER 9

EXHIBITS

- 9-A Applicable Audit Requirements
- 9-B Schedule of Federal Financial Assistance
- 9-C Audit Tracking System
- 9-D Certification of Completion and Status of Funds Report
Conditional and Final Closeout Certifications
- 9-E HOME Program Income Quarterly Reporting Form
- 9-F Scenarios that Generate Program Income
- 9-G HOME CHDO Proceeds Quarterly Reporting Form
- 9-H Scenarios that Generate CHDO Proceeds